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FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of)	
)	
Treatment of Local Exchange)	CC Docket 92-101
Carrier Tariffs Implementing)	
Statement of Financial Accounting)	
Standards, "Employers Accounting)	
for Postretirement Benefits Other)	
Than Pensions")	
)	
Bell Atlantic Tariff F.C.C. No. 1)	Transmittal No. 497
)	
US West Communications, Inc.)	Transmittal No. 246
Tariff F.C.C. No. 1 and 4)	
)	
Pacific Bell Tariff F.C.C. No. 128)	Transmittal No. 1579

TO: THE COMMISSION

REBUTTAL OF GTE

GTE Service Corporation and
its affiliated domestic
telephone operating companies

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SUMMARY

The SFAS-106 accounting change qualifies for exogenous treatment in that it (1) is an administrative action beyond the control of carriers; (2) meets the reasonableness standard within the Commission's "Order of Investigation and Suspension" and (3) has been demonstrated to have a small impact on the GNP-PI used for price cap purposes through the Godwins study.

Accrual accounting is appropriate for ratemaking purposes and by its nature employs estimates of both revenues and expenses. Actuarial assumptions developed by GTE are based on periodic studies of actual GTE experience and a methodology consistent with SFAS-87.

LEC cost estimates will vary due to differences in composite work group make up and geographical differences. These variations are to be expected and do not indicate estimates are inaccurate. A Commission-mandated set of "standard LEC assumptions" is not necessary and would not be appropriate for GTE's OPEB calculation.

GTE cannot manipulate wage and benefit expense if it desires to remain competitive in attracting talented and skilled employees. Management does not have autonomy in determining the mix of wages and benefits.

The exogenous adjustment should not be limited to the amount prefunded and funding should not be required as the unfunded liability will be deducted from rate base to the benefit of ratepayers. The accrual accounting change cost is a real,

reasonable and necessary cost incurred in the provisioning of telephone service and requires exogenous treatment.

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TO: THE COMMISSION

REBUTTAL OF GTE

GTE Service Corporation and its affiliated domestic telephone operating companies ("GTE"), pursuant to the Commission's Order of Investigation and Suspension (the "Order"), DA 92-540 released April 30, 1992 by the Chief, Common Carrier Bureau, respectively submit their Rebuttal to oppositions to GTE's Direct Case.

INTRODUCTION

In its Direct Case, GTE maintained the Statement of Financial Accounting Standards ("SFAS")-106 accounting requirements qualify for exogenous treatment since they are not under the control of the carrier, FCC approval of the change has been issued, and GTE's proposed exogenous adjustment eliminated double counting. The conditions were deemed applicable because:

(1) issuance of SFAS-106 constituted administrative action beyond the control of the carrier; (2) the Godwins study demonstrated that the adoption of SFAS-106 would have small impact on the GNP-PI used for price cap purposes and that the impact would be taken into account by GTE in forthcoming tariff filings, so that no double counting would result; and (3) the Godwins study showed there would be a disproportionate impact of SFAS-106 on price cap regulated exchange carriers compared to employers generally.

In oppositions filed July 1, 1992, four parties (American Telephone and Telegraph ("AT&T"); Ad Hoc Telecommunications Users Committee ("Ad Hoc"); International Communications Association ("ICA"); and MCI Telecommunications Corporation ("MCI")) opposed the Local Exchange Carrier ("LEC") direct cases. They contended that SFAS-106 expenses should not be afforded exogenous treatment, raised objections to the Godwins study, alleged that the impact of implementing SFAS-106 was reflected in the Commission's prescription of exchange carriers' rate of return, and questioned the underlying assumptions and the magnitude of the LEC calculated SFAS-106 expense. GTE will address these points in its Rebuttal and believes the Commission will conclude that these costs merit exogenous treatment.

A. IMPLEMENTING SFAS-106 IS AN EXOGENOUS COST CHANGE

MCI asserts in its Opposition to Direct Cases that the LECs failed to meet their burden of proof that implementing SFAS-106 results in an exogenous cost change under the Commission's price cap rules. Specifically, MCI states that (1) GTE, as one of the

LECs, failed to show that the accounting change is outside the control of the LEC, and (2) the impact of SFAS-106 will not be double counted in the GNP-PI factor.

As GTE explained in its Direct Case, "exogenous costs" as defined by the Commission are "in general those costs that are triggered by administrative, legislative or a judicial action beyond the control of the carriers."¹ The Commission further stated that:

Changes in LEC costs that are caused by changes in Part 32 of our rules, the uniform system of accounts (USOA) will be considered exogenous. We make this classification on the basis that such changes are imposed by this Commission and are outside the control of the carrier. However, carriers are not authorized to adjust their price caps automatically to reflect changes in generally accepted accounting principles (GAAP). As explained in the *Second Further Notice*, certain GAAP changes may require amendment to the USOA while others may not. Carriers must notify us of their intention to apply a change in GAAP and we will allow such a change if we find it to be compatible with our regulatory accounting needs.... (Emphasis added, citation omitted.)²

With regard to MCI's first assertion, the Commission found in Southwestern Bell/GTE Service Corporation, 6 FCC Rcd 7560, that the adoption for accounting purposes of SFAS-106 "will not conflict with the Commission's regulatory objectives" and therefore authorized all subject carriers "to adopt SFAS-106 accounting on or before January 1, 1993 using the amortization

¹ Policy and Rules Concerning Rates for Dominant Carriers, CC Docket No. 87-313, Second Report and Order ("Second Report and Order"), 5 FCC Rcd 6786, 6807 (1990) (subsequent citation omitted).

² Id.

method of recognizing the transition obligation."³ Therefore, MCI's first assertion is incorrect. As stated in GTE's Direct Case, exogenous treatment is justified because it also overcomes the second assertion since no double counting will result. The Godwins study clearly demonstrated that LECs will recover only a small portion of their SFAS-106 costs through the GNP-PI. GTE has addressed the problem of double counting through its work with Godwins to quantify the incremental effect on GNP-PI. GTE supports the Godwins supplemental report, filed July 31, 1992 as part of the United States Telephone Association ("USTA") Rebuttal and believes it refutes the issue of double counting conclusively.

The Commission in its Order on Reconsideration stated with regard to LECs that already included Other Postretirement Employee Benefits ("OPEBs") expenses in their rate cases that as long as the costs are reasonable, the Commission will allow them. The reasonableness standard was again reiterated by the Commission in its "Order of Investigation and Suspension" in this case stating that "the burden of proof is on each LEC to show that the increase in its price cap index levels or its rates is just and reasonable." MCI alleges that because it has "raised serious doubts concerning the appropriateness of treating SFAS-106 costs as exogenous, as well as casting doubts on the magnitude of the LECs' estimates,"⁴ the LECs have not met the

³ Southwestern Bell/GTE, 7560.

⁴ MCI at 6.

burden of proof. Contrary to MCI's assertion, GTE, together with the industry, has met the burden of proof.

B. GODWINS STUDY AND RATE OF RETURN OBJECTIONS

USTA has filed a supplemental Godwins report as part of its Rebuttal. That report is a detailed response to objections raised by the four opposing parties against the initial study filed June 1, 1992 by USTA. As prepared by Godwins, the report refutes the objections and demonstrates that the Commission can rely on the soundness of the study and the validity of its results in recognizing OPEBs costs as exogenous for price cap purposes.

In its rebuttal comments, USTA addresses opposition party contentions that the latest Commission prescription of rate of return reflected the impact of implementing SFAS-106. Specifically, USTA addresses the contentions that LECs have ignored the economic effects to the extent that SFAS-106 liabilities were reflected in LEC stock prices as used by the Commission in setting the rate of return and that SFAS-106 costs were embedded within initial price cap rates resulting in double counting if these costs are provided exogenous treatment.

GTE concurs and adopts by reference as its own the rebuttal comments of USTA.

C. GTE ACTUARIAL ASSUMPTIONS

1. **Accrual Accounting is Appropriate for Ratemaking Purposes**

MCI questioned the use of estimates to determine the long-term liability, "there is significant controversy within the accounting profession as to the 'correctness' of a methodology to estimate future health care liabilities.... The whole process of estimating the long-term liabilities is clearly a subjective exercise at best."⁵ In SFAS-106, the Financial Accounting Standards Board ("FASB") maintains that measuring the other postretirement benefit obligation based on best estimates is superior to implying, by a failure to accrue, that no cost or obligation exists prior to payment. The Statement requires the use of explicit assumptions, each of which individually represents the best estimate of a future event, to measure the expected obligation. The obligation is to be measured using actuarial assumptions and present value techniques. The associated assumptions and estimations, made by GTE for accounting purposes under SFAS-106, are reasonably estimable, reliable and are appropriate for current ratemaking treatment. The nature of accrual accounting is an estimation process -- more concerned with ensuring that true economic events are recognized, rather than only accounting for cash receipts and disbursements. Accrual accounting, for ratemaking purposes, has been used for years. By its very nature, accrual accounting employs estimates

⁵ MCI at 18.

of both expenses and revenues. Thus, MCI's opposition to estimates actually questions the basis of accrual accounting and the entire ratemaking process both of which have been in existence for decades.

2. GTE Assumptions Are Not Arbitrary

Several comments in the opposition filings from MCI and Ad Hoc address the "arbitrary selection" of assumptions used to calculate the SFAS-106 impact. Ad Hoc said, "In other words, all of the actuarial estimates of future PBOP obligations are no more than unenforceable guesses."⁶ MCI added, "Moreover, some of the assumptions seem to have been chose [sic] quite arbitrarily, in an effort to maximize the expected exogenous cost flow through.... Therefore, it is mistaken for the LECs to rely on outdated information to obtain their liability estimates."⁷ Actuarial assumptions used by GTE are based on sound judgment and accepted actuarial methods. Actual performance of these assumptions is monitored annually. Assumptions are adjusted as appropriate to reflect emerging experience which is consistent with the requirements of SFAS-106.

Ad Hoc questioned the validity of historical demographic assumptions, "The uncertainty surrounding this actuarial forecasting are [sic] compounded by the current force reduction programs undertaken by most LECs. Several LECs announced early

⁶ Ad Hoc Appendix I, p. 9.

⁷ MCI at 27.

retirement, attrition and other reduction plans even before price caps went into effect and more such changes are expected in the future. Such programs clearly have an effect on the historical pattern of employee demographics that the actuarial studies are attempting to analyze..."⁸ The demographic assumptions including rates of retirement, termination and mortality are based on periodic studies of actual GTE experience which are the most current information available and would reflect past reduction activity. Any estimates of downsizing in the future would be speculative, at best. Therefore, recent historical data is the most accurate basis for these demographic assumptions. This fact is accurately demonstrated through the most recent experience study which shows that actual experience over the study period very closely followed that which was predicted by the demographic assumptions. Additionally, Ad Hoc expresses a concern regarding the overstatement of GTE's OPEBs obligation related to employees who leave the Company prior to retirement. Whether the employee leaves due to early retirement, layoff or normal attrition, this is reflected in the actuarial assumptions. Accordingly, there is no overstatement of costs.

The economic assumptions include the discount rate, expected rate of return on plan assets, salary increase assumptions and the health care cost trend rate. The first three assumptions are reviewed periodically as required by SFAS-87 in the calculation

⁸ Ad Hoc Appendix I, p. 10.

of the pension accrual. The assumptions utilized in SFAS-106 calculations are based on a methodology consistent with SFAS-87.

The discount rate is evaluated each year to consider current prevailing interest rates on long-term high quality fixed income investments as well as future interest rates expected when the obligation becomes due. The rate of return and salary increase assumptions reflect GTE's best estimate of long-term future experience expected with respect to each assumption. The rate of return is consistent with the SFAS-87 analysis which requires that the expected long-term rate reflect the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the projected benefit obligation. In estimating this rate, GTE has considered the rates of return earned in the past, rates projected to be earned in the future and the mix of assets comprising GTE's portfolio of investments. The salary increase assumptions are also consistent with SFAS-87 which requires that estimates of future compensation levels include future changes attributable to inflation, productivity, seniority, promotion and other factors. GTE deems these assumptions reasonable in light of current economic conditions and appropriate in the context of the guidelines set forth in SFAS-106.

The health care trend rate is graded by calendar year. The short-term trend rate assumption was selected to reflect actual trend rate experience over the most recent years and that expected in the short term. The ultimate long-run trend rate assumption was selected to be consistent with the other economic

assumptions used in the actuarial valuation so that the entire package of economic assumptions reflects a consistent relationship with the inherent, underlying long-term inflation assumption. The trend rate reflects the Company's belief that ultimately, political and economic forces will constrain the growth in medical costs so that the percentage of Gross National Product ("GNP") devoted to medical care will stabilize. A sanity check of GTE's trend rate assumption with trend rates used by other major companies shows that GTE assumptions are neither unduly optimistic nor unduly pessimistic.⁹

3. LEC Cost Estimates Will Vary

MCI and Ad Hoc comment on the range of LEC estimates in regard to the economic and demographic assumptions utilized and indicate that this is cause for reason to doubt the accuracy of such estimates. Ad Hoc states, "In order to ensure that financial reports are as complete as possible, the SFAS-106 accrual process includes very liberal and general provisions accepting many actuarial estimates of future PBOP effects. The actuarial studies submitted by price caps LECs in this case - a small number of the total firms that will comply with the FASB pronouncement - show very significant differences in the factors used in the studies. These factors include differences in

⁹ Investigation on the Commission's Own Motion Into the Matter of Post-Retirement Benefits Other Than Pensions, California Public Utilities Commission, Docket No. I. 90-07-037, Response to Data Request No. 20-GTE.

discount rates, returns on plan assets, estimated medical care cost trend rates, and the data used to compute demographic factors such as retirement rates, turnover rates and mortality rates."¹⁰ MCI expresses concern, "the wide variety of values employed for the actuarial assumptions, as well as the somewhat dated nature of the turnover tables, cast doubt on the accuracy of the LEC estimates. There is no particular reason, for example, why there should be such a range of estimates as to the discount rate employed, the assumed return on plan assets, or the future inflation rate of medical care claims."¹¹ As discussed previously, the demographic assumptions are consistent with GTE's historical experience. These assumptions will vary from other companies historical experience due to the differences in composite employee/retiree make up and geographical diversity. This by no means gives an indication of unreliable estimates. Just the opposite is true, since each company follows its own historical activity plus known future changes to develop future assumption levels. GTE's economic assumptions are consistent with those used under SFAS-87. A periodic review, required by SFAS-87, of actuarial assumptions used to calculate pension expense is conducted to ensure assumptions are reasonable, consistent with prior year assumptions and pension assumption information available from other companies and with SFAS-87 guidelines. While SFAS-87 and SFAS-106 provide guidelines in

¹⁰ Ad Hoc Appendix I, p. 8.

¹¹ MCI at 27.

these areas, this does not preclude variations among companies and in no way indicates that the assumptions are not accurate if such variations are observed.

AT&T notes, "There is a large variation in OPEBs costs per employee, from a low of \$1,660 for BellSouth, to a high of \$4,658 for SWBT."¹² GTE again maintains that variations in results do not mean the numbers are inaccurate. Substantive plan commitments must be recognized and these can certainly differ between companies. As stated previously, results can vary due to differences in the composite work group make up and geographical diversity. As a result of these plan and demographic differences, variations should be expected and are indicative of greater accuracy in the results, not less.

AT&T notes that its "sensitivity analysis (Appendix F) shows that the SFAS-106 accrual is highly sensitive to changes in assumptions."¹³ The requirements of SFAS-106 are quite clear that each assumption must represent the best estimate of a particular future event. AT&T's sensitivity analysis explains the important reason for this requirement, but it should not be used to undermine the importance of exercising sound judgment in developing the best estimate of future experience.

GTE's actual experience is monitored annually and compared to prior assumptions. Consequently, assumptions are adjusted as appropriate to reflect actual emerging experience. This is not

¹² AT&T at 22.

¹³ Id.

an arbitrary process and is entirely consistent with the requirements of SFAS-106. This process allows a company to follow its own historical activity in forecasting its own most likely future.

The FASB has written into SFAS-106 specific methods to be used to account for changes in assumptions and for the differences between actual experience and estimates. Gains and losses can arise due to actual experience differing from SFAS-106 assumptions. Differences will also be created if there are changes in a company's original assumptions. Rather than adjusting costs each time a change is made or each time that actual experience differs from estimates, the FASB has determined that only if the net gain or loss (which has not yet been recognized in net periodic costs) "exceeds 10% of the greater of the accumulated postretirement benefit obligation or the market related value of plan assets"¹⁴ would an amortization of the unrecognized gain or loss become part of SFAS-106 costs. This corridor approach allows for the offsetting of gains and losses over periods of time; a gain in one period, so long as it is within the 10% corridor, could be offset with a loss in a subsequent period. The use of the corridor approach will smooth what could otherwise be spikes in net periodic costs over the course of several years. GTE believes the use of the corridor approach for these variations is a volatility-reducing mechanism

¹⁴ SFAS-106 at paragraph 59.

and that the amortization of various gains and losses will also aid in reducing volatility of future net periodic costs.

AT&T commented on variations among LEC plans, "Several companies (Ameritech, BellSouth, NYNEX and SNET) are incurring a high percentage of their overall projected SFAS-106 expense currently through cash pay-as you-go ... differences from other LECs may be generosity of plans."¹⁵ GTE believes that the difference between incremental SFAS-106 costs from one LEC to another has nothing to do with the level of benefits offered. A significant driver of the incremental cost differences is how much a LEC had accrued for OPEBs prior to adoption. To date, GTE has accrued a relatively small amount. This makes GTE's incremental costs greater than a LEC that chose to accrue more expense prior to adoption. AT&T seems to believe that companies with cash pay-as-you-go costs which are close in amount to SFAS-106 costs are those companies using OPEBs assumptions which are closely related to actual experience. If this were true, there would seem to be little need for the requirements of SFAS-106 and only small effects from its adoption. GTE believes, situations in which cash pay-as-you-go costs are close to SFAS-106 costs are caused more by the specific population make up, specific plan provisions and current funding levels than by the Company's actuarial assumptions. AT&T must be incorrect because very few companies are assuming future medical inflation will remain at recent double-digit inflation levels, the resultant costs would

¹⁵ AT&T at 23.

be too high, and therefore, most companies are exercising the sound judgment that medical inflation will trend down from its current levels. GTE maintains such differences do not imply that one plan is more generous than another.

D. THE COMMISSION SHOULD NOT STANDARDIZE LEC ASSUMPTIONS

Opposition commenters proposed the Commission mandate specific parameters that would result in a set of "standard assumptions" to be used by LECs in their SFAS-106 calculations. Specifically, AT&T proposes the "commission set specific parameters ... on assumptions underlying capping of benefit plans, the discount rate, rate of return on plan assets and health care trend rate and then require each price cap LEC to recalculate its OPEB accruals."¹⁶ GTE opposes the use of "standard assumptions" in calculating OPEBs accruals and believes that specifying a set of uniform assumptions violates the concepts of SFAS-106.

Specifically, AT&T offers economic assumptions, "Discount rate of 9%, rate of return on plan assets of 9%, and health care trend rate (including inflation) of 10% in 1991, decreasing by 0.4% annually to 4% in 2006."¹⁷ GTE maintains these rates should not be mandated for all LECs and questions their reasonableness in the discussion that follows.

¹⁶ AT&T at 25.

¹⁷ AT&T at 28.

The interest discount rate should reflect prevailing interest rates on high-quality, fixed-income investments.¹⁸ However, 9% seems high in relation to currently prevailing rates (for example, the rate of return on long-term Treasury bonds is currently about 7.6%). It is of interest to note that AT&T has utilized a lower discount rate in its own benefit calculation (8% in the 1991 calculation lowered from a rate of 8.5% in their 1990 calculation).¹⁹ The rate of return on plan assets should reflect the average rate of earnings expected on funds currently invested or to be invested. When making this assumption, companies consider the rates of return earned in the past, rates projected to be earned in the future and the mix of assets comprising the portfolio of investments. A universal rate would seem to be incapable of accurately reflecting the variations possible among plan investments of differing type and duration.

The health care trend rate generally grades by calendar year. The short-term rate is normally selected to reflect actual health care experience over the most recent years and the expected trend over the next few years. Each company's actual trend will reflect workforce make up, geographic diversity and plan provisions. The uniqueness of these factors makes the determination of a universal rate impossible. Assuming such a rate could be developed from historical experience, AT&T's proposed 10% rate appears to be too low, as it is lower than the

¹⁸ SFAS-106 at paragraph 31.

¹⁹ Footnotes to 1991 AT&T Annual Report to Stockholders.

historical experience shown in LEC direct cases. The long-run trend rate assumption should be consistent with other economic assumptions -- interest discount rate, expected return on assets and pay increase assumptions -- so that the entire package of economic assumptions reflects a consistent relationship with underlying, long-term inflation. GTE believes AT&T's proposed 5% differential between the interest discount rate and the ultimate health care trend rate is much too wide. A 2%-3% spread would generally be deemed more reasonable. AT&T proposes reducing the health care trend rate to 4% in 2006. This rate appears to have been used by Ameritech, which has adopted "caps" on cost. It is GTE's understanding that this 4% is not intended to represent full "trend" but rather, the "substantive plan" intentions that the cap will grow by a lower percentage. The use of a 4% health care trend rate assumption would not be appropriate. AT&T appears to have engaged in self-serving "cherry picking" in suggesting the specified set of uniform assumptions, in a way which would violate the concepts of SFAS-106.

AT&T suggests benefits should be capped. "Caps on benefits should be assumed. Medical Expense Plan, Medicare Part B premium reimbursements and Dental Care Plan costs per employee should capped as of January 1, 1993 levels. No 'substantive plan' increases in benefits should be included"²⁰ This assumption might be appropriate for a LEC that has adopted or negotiated fixed caps, but would violate SFAS-106 and distort results

²⁰ AT&T at 26-27.

inappropriately if the "substantive plan" is such that the cap amount is anticipated to increase in the future. GTE believes such an assumption would represent an unsound projection and is inconsistent with SFAS-106.

AT&T uses an example from NYNEX to, "illustrate the dramatic influence on OPEB accruals caused by capping LEC benefit payments."²¹ GTE does not question the financial significance of imposing fixed caps on future postretirement benefits. The imposition of such caps eliminates the effect of future medical inflation on long-term projections. The NYNEX example clearly illustrates the financial consequences of future medical inflation. At the same time, it also highlights the importance of (1) accurately reflecting plan provisions and (2) utilizing sound projections in developing a best estimate of an expected future occurrence. Ignoring medical inflation would definitely not be sound for some plans and inconsistent with the requirements of SFAS-106. SFAS-106 requirements are very clear that substantive plan commitments, not fixed caps, must be the basis for accounting.

²¹ AT&T at 21.

E. WAGES AND BENEFITS ISSUES

1. OPEBs Liability

Ad Hoc suggested SFAS-106 is not a requirement of law, stating, "FAS 106 is not an enforceable requirement of law; it is strictly voluntary, and, as noted, very broad in application."²²

SFAS-106 looks beyond the legal enforceability of the Company's liability and considers various subjective criteria to show the financial liability on the employer, basing its determination on such criteria as past practices, social or moral sanctions, and current customs.

SFAS-106 provides safeguards to ensure the amounts prefunded will be used only for OPEBs in the future which, in turn, will ensure ratepayers' interests are protected. To qualify as plan assets under SFAS-106, the funded amounts must be "segregated and restricted to be used for postretirement benefits."²³ This would be true whether the Company funds via a collectively bargained VEBA or some other type of trust fund. In addition, when a trust fund is established, both the Company and the trustee would have records of cash contributions to the trust. The fiduciary responsibility of the trustee would help ensure that fund assets are used solely for the purpose of payment of future post-retirement benefits to members of the trust (or their dependents). Once in such a restricted fund the plan assets cannot properly be paid out for anything other than OPEBs. For

²² Ad Hoc Appendix I at 9.

²³ SFAS-106 at paragraph 63.

example, should these funds be used for other purposes, the tax advantages of the fund would be rescinded by the Internal Revenue Service. A company would not knowingly forsake the tax advantages, cost savings and potential revenue recovery of prefunding by using these funds in an inappropriate manner.

2. GTE Cannot Manipulate Wage And Benefit Expense

MCI makes several arguments involving wage and benefit expenses issues: "MCI illustrates the simultaneity of both wage and benefit expenses to these companies. This simultaneity precludes the treatment of one form of labor compensation, SFAS-106 related costs, as exogenous and the other as endogenous...."²⁴ "MCI shows below that the supposed 'exogenous' costs of SFAS-106 are intrinsically tied to all other endogenous labor costs and it is futile to attempt to disconnect OPEB costs from other labor costs for exogenous treatment."²⁵ "If exogenous treatment is afforded to one portion of the compensation package, an asymmetrical relationship will be afforded carriers under price caps. This will allow carriers to offer increased OPEB, for which they would receive exogenous treatment, and decrease other forms of compensation."²⁶ "Granting exogenous treatment for these benefit plans would only advance asymmetrical treatment within price caps. Ratepayers would pay the increased costs of

²⁴ MCI at IV.

²⁵ MCI at 5.

²⁶ MCI at 6.

these programs, which LECs could turn around and reduce or hold constant over time the wages paid to their employees, thus gaining a higher rate of return."²⁷ AT&T adds "LECs have essentially the same degree of control over OPEB expenses as over salaries and wages, which are treated endogenously."²⁸ "LECs have substantial ability to control both the level of benefits offered to employees and they further retain the ability to alter, cap or even withdraw these benefits in the future."²⁹

MCI contends that if exogenous treatment is provided for OPEBs the LECs could increase OPEBs cost and decrease other forms of compensation. This argument is not valid under the terms of exogenous treatment. The exogenous event is a one-time adjustment based on the projection of a company's OPEBs requirements under their existing OPEBs plan. This prohibits any manipulation of benefits and wages for the purposes of exogenous treatment. The only exception to a one time adjustment would be a significant change, such as the introduction of a national health care insurance plan.

AT&T and MCI exaggerate the level of control a LEC has over the relationship between wages and benefits. If a LEC desires to remain competitive in attracting talented and skilled employees, it cannot operate independently, disregarding wage rates, salaries, and benefits offered by other firms. Additionally,

²⁷ MCI at 9.

²⁸ AT&T at 17.

²⁹ AT&T at 18.